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The Conference Board

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International Economic Scoreboard

INSIDE:

- **Steepening Declines in Leading Indexes.**
- **Japan & Germany — A Deterioration in Their Cyclical Outlook.**
- **Inflation — Unexpected Upward Movement.**

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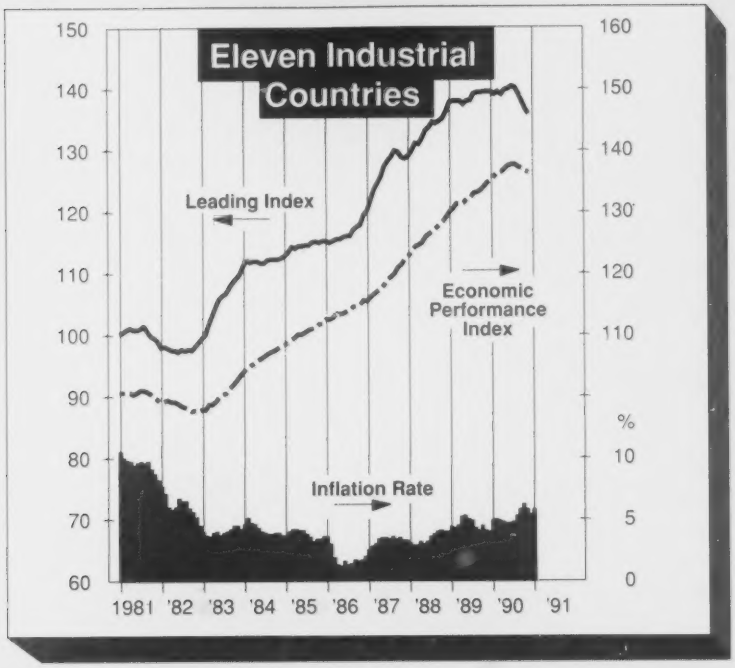
World Business Cycle



Summary of Growth Rates, Eleven Industrial Countries

	Ten-year Growth Rate	Indexes of Economic Performance Growth Rates *			Leading Business Cycle Indexes Growth Rates *			Current Reading on the Cycle	Latest Month Covered
	1976-86	6 mos. ago	3 mos. ago	Latest month	6 mos. ago	3 mos. ago	Latest month		
Eleven countries	3	4	2	0	1	-1	-4	Expansion stopped, leaders weak	Dec.
Ten countries (U.S. excl.)	3	6	4	2	2	-1	-4	Expansion continuing, leaders weak	Dec.
North America (2)	3	2	-1	-5	0	0	-5	Recession continuing	Dec.
Europe (4)	2	6	4	3	2	1	-1	Expansion continuing, leaders weak	Dec.
Pacific Region (5)	4	7	4	3	2	-2	-7	Expansion continuing, leaders weak	Dec.
United States	3	1	-2	-6	1	-2	-5	Recession continuing	Jan.
Canada	3	1	-1	-4	-4	-3	-6	Recession continuing	Dec.
West Germany	2	7	6	7	5	4	1	Expansion continuing	Jan.
France	2	7	6	3	5	0	-1	Expansion continuing, leaders weak	Dec./Jan.
United Kingdom	2	3	1	-2	-2	-1	-1	Recession continuing	Jan.
Italy	2	6	3	2	0	-4	-4	Expansion stopped, leaders weak	Oct./Dec.
Japan	4	8	5	7	3	-6	-10	Expansion continuing, leaders weak	Jan.
Korea, R.O.K.	7	8	2	9	2	-3	2	Expansion continuing	Jan.
Australia	3	-2	-7	-8	-6	-7	-4	Recession continuing	Jan.
New Zealand	2	2	-3	-5	-3	-4	-6	Recession continuing	Dec.
Taiwan, R.O.C.	8	-1	2	4	-1	-5	1	Expansion stopped, leaders weak	Jan.

* Ratio of current month's index over the preceding 12 months, expressed as a compound annual rate.

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Overview

Weakness Spreading and Deepening

Weakness in the global economy continues to spread and deepen. This month we add New Zealand to the list of countries in recession. (The first were Australia, Canada and the United States. Thus it's still an Anglo-Saxon disease!) The United Kingdom is still a borderline case. In Taiwan, however, the performance index advanced sharply in January and the leading index climbed a point, which removes that country from the borderline-recession category.

The most worrisome evidence of spreading cyclical weakness this month is the dramatic downward movements that have taken place in the leading index growth rates for Japan and Germany (see next page for charts and additional discussion). The rate of change in the Japanese leading index, which was at -2 percent a month ago, is now at a startling -10 percent. Last month the German leading index showed a surprisingly strong 7 percent growth rate; today's report shows a still-positive but anemic 1 percent growth rate. Korea's leading index also is now growing much less vigorously.

The result of these and other changes is a decidedly pessimistic alteration in the global outlook. The 11-country performance index is still essentially flat. But the leading index has weakened noticeably; a month ago its rate of change was -2 percent, now it's moved down to -4 percent. Although it may still be premature to conclude that this is a global recession, the evidence now in hand says it's an odds-on bet.

Is there any optimism to be found in these numbers? No, not here. But stock prices have been rebounding in many parts of the world, and early U.S. data for February suggests the recession may be bottoming. Thus better reports on the leading indexes may appear before too long.

Summary of Inflation Rates, Eleven Industrial Countries

	Ten-year Inflation Rate 1979-89	*6 mos.* ago*	*3 mos.* ago*	*Latest* month*	*Current Reading on Inflation*	*Latest Month Covered*
		annual rates, percent				
Eleven countries	5.3	4.8	6.2	5.8	Volatile	Jan.
Ten countries (U.S. excl.)	5.2	4.4	5.7	5.7	Rising	Jan.
North America (2)	5.6	5.0	6.7	6.2	Volatile	Jan.
Europe (4)	6.6	5.4	6.5	4.7	Falling	Jan.
Pacific Region (5)	3.4	3.3	4.9	5.8	Rising	Jan.
United States	5.5	6.0	6.3	5.4	Falling	Feb.
Canada	6.5	4.0	5.1	9.4	High and Rising	Jan.
West Germany	2.9	2.8	3.1	2.7	Falling	Feb.
France	7.3	2.9	4.6	3.7	Volatile	Jan.
United Kingdom	7.3	11.1	11.1	6.5	Falling	Jan.
Italy	11.2	6.6	6.8	7.1	Rising	Feb.
Japan	2.5	2.4	4.3	5.5	Rising	Jan.
Korea, R.O.K.	8.1	11.1	9.5	9.8	High and Volatile	Jan.
Australia	8.4	7.4	5.1	7.1	Volatile	Nov.
New Zealand	11.8	6.4	5.4	4.6	Falling	Nov.
Taiwan, R.O.C.	4.4	5.0	4.5	3.5	Falling	Jan.

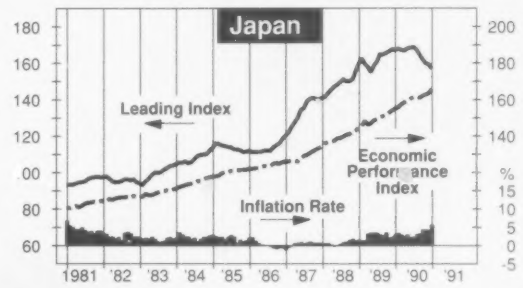
* Ratio of current month's index over the preceding 12 months, expressed as a compound annual rate.

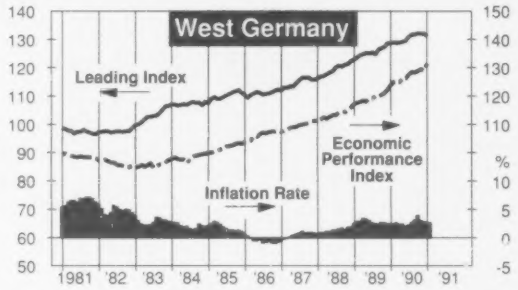
Gloomy Outlook in Japan

The outlook for the business cycle in Japan has turned sour very quickly. A month ago the leading index showed a slight downward trend — a -2 percent rate of change. In this report, the decline is very pronounced, with the rate of change now down to a startling -10 percent.

Almost all of the ten statistical series that comprise Japan's leading index contributed to the downturn. In particular, new data that became available during the month for inventory investment, business failures, and especially consumer credit use, sharpened the pessimistic signal. Common stock prices added to the weakness in January, although they rebounded smartly in February and March. That latter move is about the only encouraging news for Japan we can report.

Not only has the leading business cycle index turned down, the inflation picture worsened as well. In January, the growth rate of the consumer price index accelerated to 5.5 percent, more than double the 2.5 percent average for the decade of the 1980s.





Et Tu Germany?

As in Japan, the business cycle outlook for Germany deteriorated sharply with the new data available this month. In Germany's case, however, the deterioration was from the very favorable set of numbers reported last month to a more neutral pattern this month, rather than (in Japan) from questionable to seriously worrisome. Specifically, the German leading index, which showed a sturdy 7 percent growth rate a month ago, now shows but 2 percent. And a glance at the index numbers on the back page reveals that the German leading index has been flat for the last five months. This does not necessarily condemn Germany to follow the rest of the industrial world into recession. (We are not dealing here with a group of elephants trained to follow one another unfailingly around the circus ring.) What we can say with confidence is that prospects for continued economic expansion in Germany are not nearly as encouraging as they seemed to be a month ago.

East Meets West

As mentioned in previous reports, the outlook in Germany has been affected importantly by the integration of the former German Democratic Republic into West Germany, which in these reports we have referred to simply as "Germany." Free now to do so, the people of East Germany have eagerly bought up as many Western goods as they could afford, because of their superior quality. This has boosted production in the West.

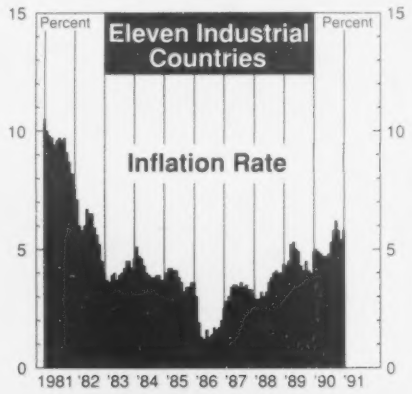
But as demand for East German output has fallen, and as state subsidies have been withdrawn, East German factories have been closing, laying off many thousand of workers. Accordingly, the outlook for the two regions is dramatically different. One well regarded forecasting group projects unemployment in West Germany to decline from 6.2 percent last year to 5.5 percent this year and then to decline further to 5.2 percent in 1992. In East Germany, by contrast, unemployment will reach depression proportions. The unemployment rate is expected to rise by a factor of 10 — from 3 percent last year to 31 percent this year and to 36 percent in 1992. For the nation as a whole, this works out to 5.5 percent unemployed last year, 11.2 percent this year, and 11.9 percent next year.

As these comparisons indicate, any time German economic data are discussed, it is crucial to know whether they refer to the nation as a whole or only to West Germany. Accordingly, until we can switch to countrywide data, we will change the labels on our report to show that our data are limited to the West.

Inflation Rekindled

Worldwide inflation, which improved in November and December, took a turn for the worse in January. The 11-country inflation rate climbed back up to 5.8 percent, just a notch below the 5.9 percent rate of last October, attributable to the surge of oil-price increases following Iraq's invasion of Kuwait, and which was the highest global inflation rate since 1982.

The January acceleration is perplexing, because the return of crude-oil prices to their early-summer-1990 levels should have started the inflation rate back down to lower levels, and the recession conditions that exist in most of the industrial world should be reinforcing the slowdown (as, for example, happened during the worldwide recession of 1981-82, which can be seen clearly on the chart). Consistent with that historical pattern, the pace of wage increases is easing here in the United States. Nevertheless, both in the U.S. and other countries, the price indexes are accelerating.



Perhaps this January increase is nothing more than statistical noise — meaningless month-to-month volatility. For example, part of it reflects U.S. excise-tax increases — gasoline and jewelry — but the U.S price index accelerated in January even after allowing for excise taxes and, besides, the U.S. is only 40 percent of the 11-country composite. Consequently, the latest data on prices are discouraging. The improvement in the rate of inflation that has accompanied recessions in the past has not appeared this time. Nevertheless, we still expect the global inflation rate to respond to the pressures of falling oil prices and falling economies in the near future.

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

This publication is designed to help readers monitor the ups and downs of the business cycle around the world. To this end, three statistical series are shown for each country. One is the inflation rate, calculated from the consumer price index compiled by the official statistical agency. The other two are cyclical indexes—an index of economic performance and a leading index. All of the cyclical indexes are based on 1980=100. The economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call "coincident" series, because they define the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too— typically after three or four months. When the leading index begins to rise more slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see Phillip A. Klein and Geoffrey H. Moore, *Monitoring Growth Cycles in Market-Oriented Countries*, Ballinger Publishing Co. 1985.) Considerable variation in the length of the lead is to be expected, however. Constant monitoring is needed to make effective use of the system and to get early warnings of recessions and recoveries, changes in foreign trade flows, and new inflationary trends.

The indexes were developed by Geoffrey H. Moore and Phillip A. Klein, and are maintained by the Center for International Business Cycle Research at the Columbia Business School. (The U.S. indexes used here differ slightly from the indexes reported monthly by the U.S. Department of Commerce.) To facilitate analysis the indexes are adjusted so their long-run growth rates are equal to those in real GNP in the country concerned. Growth rates are shown in the first column of the table on page 2.

David Chon, Editor

For more information:

For more about this indicator system and the availability of detailed data for each country please address inquiries to: Center for International Business Cycle Research, Columbia Business School, New York, NY 10027 - Telephone: 212-280-2916.

INDEXES, WORLDWIDE AND BY REGION, 1989-90

		11 Countries		10 Countries excl. U.S.		North America (2)		Europe (4)		Pacific Region (5)	
		Indexes, 1980=100									
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
July	89	132	138	135	137	128	138	125	124	153	162
Aug.	89	133	139	136	139	129	139	126	124	154	165
Sept.	89	133	139	137	139	128	139	126	124	154	165
Oct.	89	134	139	137	139	128	139	126	124	155	166
Nov.	89	134	140	138	139	128	139	127	124	156	166
Dec.	89	135	140	139	140	129	138	128	124	157	167
Jan.	90	135	140	140	140	128	138	129	125	158	167
Feb.	90	136	139	141	140	129	136	130	124	159	168
Mar.	90	136	140	142	140	129	138	130	124	160	167
Apr.	90	136	139	142	140	129	137	131	125	161	167
May	90	137	140	143	140	129	138	131	125	162	168
June	90	138	140	143	140	130	138	132	125	163	168
July	90	138	140	144	141	129	138	132	126	164	168
Aug.	90	138	140	144	140	129	138	133	126	164	167
Sept.	90	137	139	144	139	128	138	133	125	163	165
Oct.	90	137	138	144	138	127	136	133	125	164	162
Nov.	90	137	137	144	137	126	134	133	125	164	160
Dec.	90	136	136	144	137	125	133	133	124	164	160

	11 Countries		10 Countries excl. U.S.		North America (2)		Europe (4)		Pacific Region (5)	
	Growth Rates, Percent									
	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
	4	2	6	3	2	1	5	1	7	6
	5	3	6	4	2	2	6	1	7	9
	4	3	6	4	2	1	5	2	7	8
	4	3	6	3	1	1	6	1	6	7
	4	2	6	3	1	1	6	0	7	7
	4	2	6	3	1	0	6	0	7	6
	4	1	7	3	0	-1	7	1	7	5
	4	1	7	3	1	-3	7	1	7	6
	5	1	7	2	1	-1	7	1	7	4
	4	0	6	2	1	-2	6	1	8	3
	4	1	6	2	1	0	6	1	7	3
	4	1	6	2	2	0	6	2	7	2
	4	2	6	2	1	1	6	3	7	2
	3	1	5	1	0	1	5	2	6	0
	2	-1	4	-1	-1	0	4	1	4	-2
	1	-2	4	-2	-2	-2	4	1	4	-6
	0	-4	3	-3	-4	-4	3	0	3	-7
	0	-4	2	-4	-5	-5	3	-1	3	-7
	Ten Year Annual Growth Rate, Percent									
	3	3	3	3	3	3	2	2	4	4

INDEXES, ELEVEN COUNTRIES, 1989-90

		United States		Canada		West Germany		France		United Kingdom		Italy		Japan		Korea, R.O.K.		Australia		New Zealand		Taiwan, R.O.C.	
		Indexes, 1980=100																					
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Oct.	89	128	140	134	125	121	127	140	129	126	117	116	118	152	166	222	220	149	130	109	120	192	232
Nov.	89	128	140	135	124	122	128	141	129	127	116	117	118	154	167	220	222	150	128	110	119	194	233
Dec.	89	128	140	135	124	123	129	141	128	128	116	118	118	155	168	224	221	151	128	111	119	194	234
Jan.	90	128	139	135	123	124	129	143	128	128	119	118	119	156	168	227	222	152	128	111	119	194	236
Feb.	90	128	138	135	122	125	129	143	127	128	119	119	118	156	168	233	231	150	127	111	118	194	246
Mar.	90	129	139	135	123	126	129	144	128	129	118	119	118	158	168	235	227	150	126	112	117	194	241
Apr.	90	128	138	135	120	125	129	145	129	129	118	120	118	159	167	236	225	150	125	112	117	192	239
May	90	129	140	135	120	127	130	146	130	129	117	119	119	160	168	233	227	150	126	113	117	194	238
June	90	129	140	135	121	127	130	146	131	130	117	120	118	161	169	234	225	150	124	111	116	192	235
July	90	129	140	135	121	128	131	147	132	129	116	119	118	162	169	236	226	149	124	111	116	192	234
Aug.	90	128	140	134	121	129	132	148	132	129	116	120	118	162	168	238	228	147	124	111	115	192	232
Sept.	90	128	139	134	120	129	132	148	130	129	116	120	116	162	165	238	235	145	122	109	115	193	229
Oct.	90	127	138	133	119	129	133	148	129	129	116	120	117	163	163	234	222	144	121	110	115	195	229
Nov.	90	126	136	132	119	130	132	148	129	128	115		116	163	160	236	228	140	122	110	114	195	236
Dec.	90	125	135	132	117	129	132	148	128	128	114		115	164	160	239	227	141	121	108	113	193	235
Jan.	91	123	135			132	132		129	128	116			166	158	246	230	140	121			198	236
		Growth Rates, Percent																					
Oct.	89	1	1	2	0	4	5	8	-1	5	-4	5	1	7	8	7	2	7	-1	-1	5	4	7
Nov.	89	1	1	2	-1	5	5	9	-1	4	-4	6	1	7	8	5	3	7	-3	1	4	6	7
Dec.	89	1	0	2	-1	6	6	8	-3	5	-4	7	1	7	8	7	1	7	-4	2	3	4	7
Jan.	90	0	-1	2	-3	7	5	8	-3	4	0	6	2	7	6	9	2	7	-4	2	2	4	8
Feb.	90	1	-3	2	-3	8	5	8	-3	4	1	6	1	7	6	13	10	4	-4	2	0	3	14
Mar.	90	1	-1	2	-2	8	4	8	-2	4	0	6	1	8	5	13	5	2	-6	3	-1	3	8
Apr.	90	0	-2	2	-5	6	3	8	0	4	1	6	1	9	4	12	2	2	-6	3	-2	0	5
May	90	1	0	1	-5	7	3	7	1	4	-1	5	1	8	4	8	4	0	-5	5	-2	1	3
June	90	2	0	1	-4	6	3	7	3	4	-1	4	0	8	3	8	1	0	-6	2	-3	0	0
July	90	1	1	0	-4	7	5	7	5	3	-2	3	0	8	3	8	2	-2	-6	2	-3	-1	-1
Aug.	90	0	1	-1	-3	8	5	7	4	2	-3	3	0	7	1	8	3	-4	-5	0	-4	-1	-3
Sept.	90	-1	0	-1	-3	6	4	6	1	2	-1	3	-4	5	-3	7	9	-5	-6	-3	-4	0	-5
Oct.	90	-2	-2	-2	-4	6	4	5	0	1	-1	2	-2	5	-6	2	-3	-7	-7	-2	-3	2	-5
Nov.	90	-4	-4	-3	-4	6	3	4	0	-1	-3		-4	5	-8	3	2	-11	-5	-2	-5	1	0
Dec.	90	-5	-5	-4	-6	4	3	3	-2	-1	-4		-4	5	-8	5	0	-9	-6	-5	-6	0	-1
Jan.	91	-6	-5			7	1		-1	-2	-1			7	-10	9	2	-8	-4			4	1
		Ten Year Annual Growth Rate, Percent																					
1976-86		3	3	3	3	2	2	2	2	2	2	2	2	4	4	7	7	3	3	2	2	8	8